

FEDERAL BUREAU OF INVESTIGATION  
FOI/PA  
DELETED PAGE INFORMATION SHEET  
FOI/PA# 1493998-0

Total Deleted Page(s) = 2  
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(12/31/1995)

# FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE

Date: 05/13/1997

To: New York

From: New York

Contact: [REDACTED]

Approved By: [REDACTED]

Drafted By: BMJ:bmj

Case ID #: 196C-NY-NEW (Pending)

Title: BRE-X;  
DAVID WALSH;  
Securities Fraud

Synopsis: Based upon conversations with [REDACTED] of the NASD and AUSA [REDACTED] SDNY, captioned investigation will be opened and assigned to SA [REDACTED]

Details: BRE-X is a company that trades on the NASDAQ. BRE-X, a mining company claimed to have hit gold by announcing that the company found 200 million ounces of gold in Buang, Indonesia. This would represent the largest gold find in history. It appears that the geological survey conducted by "in-house" geologists was seriously flawed and "salted". A subsequent sample test of the material indicated that the material was negative for gold. The in-house geologist committed suicide by jumping out of a plane over Indonesia after the false claim was raised.

BRE-X stock which had traded for pennies rose to over \$200.00 per share before a 10 to 1 split. Price per share post split was \$28.00.

Subject, WALSH, CEO of BRE-x and other company partners made tens of millions of dollars through what appears to be an insider trading scheme or intentional false representations to the investing public.

SA [REDACTED] needs to contract AUSA [REDACTED] who has additional details regarding this matter.

196C-NY-262125  
CASE 196C-NY-262125  
DATE 5/13/97  
ORIGIN [REDACTED]  
UPLOADED [REDACTED]  
WITH/TEXT [REDACTED]  
WITH/OUT TEXT [REDACTED]  
BY [REDACTED]  
DATE 6/16/97

SEARCHED	INDEXED
SERIALIZED	FILED
MAY 13 1997	
FBI - NEW YORK	

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196c. NY-262125-2

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MAY 29 1997	
FBI-NEW YORK	

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WITH/TEXT \_\_\_\_\_  
WITH/OUT TEXT \_\_\_\_\_  
BY \_\_\_\_\_  
DATE 6/10/97



U.S. Department of Justice

Federal Bureau of Investigation  
26 Federal Plaza  
New York, New York 10278

In Reply, Please Refer to  
File No.

May 29, 1997

via facsimile

[Redacted]  
National Association of Security Dealers  
1735 K Street, NW  
Washington, D.C. 20006-1500

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Re: Bre-X Minerals Ltd.;  
David G. Walsh

Dear [Redacted]

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We request access to the investigative and other non-public files of the National Association of Securities Dealers (NASD) relating to the above-referenced matter. This request is made in connection with an ongoing lawful investigation or official proceeding being conducted by the Federal Bureau of Investigation (FBI).

We understand that the files in this matter contain records of customers as those terms are defined in the Right to Financial Privacy Act of 1978. We will establish and maintain such safeguards as are necessary and appropriate to protect the confidentiality of files to which access is granted and the information derived therefrom. Files and information may, however, be used for the purposes of our investigation and any resulting proceedings. They may also be transferred to other law enforcement offices. We shall notify you of any such transfer and use our best efforts to obtain appropriate assurances of confidentiality.

Other than as set forth in the preceding paragraphs, we will:

Make no public use of these files or information without prior approval of your staff.

Notify you of any legally enforceable demand for your files or information prior to complying with the demand and not grant any other demands or requests for your files or information without prior notice to your staff.

We recognize that until this matter has been closed, the NASD continues to have an interest and will take further investigatory or other steps that it considers necessary in the discharge of its duties and responsibilities.

Please direct your response to Special Agent [redacted]  
[redacted] Any questions regarding this matter, please  
contact SA [redacted] at (212) 384-2475. Thank you for your  
assistance.

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Very truly yours,

Lewis D. Schiliro  
Special Agent in Charge

By:

[redacted]  
Supervisory Special Agent

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196C-NY-262125-3

SEARCHED	INDEXED
SERIALIZED	FILED
JUN 16 1997	
WORK	

116

(12/31/1995)

# FEDERAL BUREAU OF INVESTIGATION

**Precedence:** ROUTINE

**Date:** 06/16/1997

**To:** New York

**Attn:** Legal Unit  
Personnel File of SA  
[redacted]

**From:** New York  
[redacted]

**Contact:** SA [redacted] ext. 2475

**Approved By:** [redacted]

**Drafted By:** [redacted] dil

**Case ID #:** 196C-NY-262125 (Pending)

**Title:** BRE-X; DAVID WALSH;  
Securities Fraud

**Synopsis:** Advising of circumstances that could be viewed as a potential conflict of interest.

**Details:** Captioned case, which has been opened and assigned to SA [redacted] involves allegations of stock manipulation by insiders of Bre-X Minerals, Ltd. The stock which had previously traded on the NASDAQ rose from pennies to over \$200.00 per share after the company announced that it had hit a mine containing 200 million ounces of gold. This would have represented the largest gold find in history. Soon after the significant rise in the value of the company's stock, the mine tested negative for gold and the in-house geological survey was found to be seriously flawed. Since that time, the stock has become worthless.

Several of the country's largest mutual fund companies had invested in Bre-X. Fidelity Investments held 15.9 million shares, 7 percent of Bre-X's total stock at year end. These shares were divided among the following general stock funds: Contrafund, Magellan, Asset Manager, Strategic Opportunities and Mid-Cap Stock. These funds are all mutual funds worth billions of dollars with a diversified portfolio. SA [redacted] has invested in Magellan and Contrafund and is one of many investors in these funds.

SA [redacted] has written this EC to advise the Legal Unit of a situation which could be perceived as a potential conflict in the event further action is necessary.

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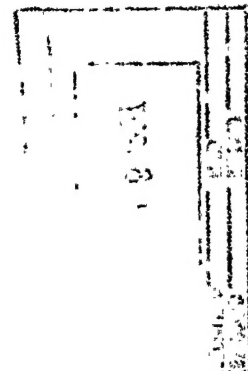
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BY 7

DATE 6/17/97  
brexec.wpd



MAIL-IT REQUESTED: MAY 9, 1997

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CLIENT:   
 LIBRARY: NEWS  
 FILE: NYT,WSJ

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YOUR SEARCH REQUEST AT THE TIME THIS MAIL-IT WAS REQUESTED:  
 BRE\* AND GOLD AND DATE AFT 5/1/97

NUMBER OF STORIES FOUND WITH YOUR REQUEST THROUGH:  
 LEVEL 1... 20

LEVEL 1 PRINTED

DISPLAY FORMAT: FULL

*Bre-X*

SEND TO:   
 DOJ-USAO-NEW YORK  
 ROOM 620  
 ONE ST. ANDREWS PLAZA  
 NEW YORK NEW YORK 10007-1703

*196C-104-022125*

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 BY *X* \_\_\_\_\_  
 DATE *6/24/97* \_\_\_\_\_

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LEVEL 1 - 1 OF 20 STORIES

Copyright 1997 The New York Times Company  
The New York Times

May 9, 1997, Friday, Late Edition - Final

SECTION: Section D; Page 2; Column 6; Business/Financial Desk

LENGTH: 184 words

HEADLINE: Bre-X Files For Bankruptcy

BYLINE: By Bloomberg News

DATELINE: CALGARY, Alberta, May 8

BODY:

Bre-X Minerals Ltd. was granted protection from creditors today by an Alberta court as it oversees the liquidation of the company, which was described this week as having perpetrated the biggest mining fraud in history.

Bre-X also said that its chief geologist had left the company.

Bre-X, which is based in Calgary, faces eight lawsuits from shareholders in Canada and the United States and an investigation by the Royal Canadian Mounted Police after an independent auditor said Bre-X's deposit in Indonesia, once called one of the world's largest gold finds, contained only trace elements of gold.

Bre-X said its filing under the Companies' Creditors Arrangement Act, the Canadian equivalent of United States bankruptcy protection, would allow for the orderly disposition of its assets. The order appoints Price Waterhouse Ltd. as monitor of the assets and records of Bre-X and affiliated companies Bresea Resources Ltd. and Bro-X.

Bre-X also said its chief geologist, John Felderhof, had resigned from the Bre-X, Bresea and Bro-X boards and "is no longer in their employ."

LANGUAGE: ENGLISH

LOAD-DATE: May 9, 1997

LEVEL 1 - 2 OF 20 STORIES

Copyright 1997 The New York Times Company  
The New York Times

May 8, 1997, Thursday, Late Edition - Final

SECTION: Section D; Page 6; Column 4; Business/Financial Desk

LENGTH: 150 words

HEADLINE: Toronto Stock Exchange Delists Bre-X

BYLINE: By Bloomberg News

DATELINE: TORONTO, May 7

BODY:

Bre-X Minerals Ltd., whose shares collapsed this week after its Indonesian mining property was revealed as worthless, was delisted today by the Toronto Stock Exchange and suspended by the Montreal and Alberta exchanges.

Bre-X, which plunged 97 percent on Tuesday after its claim to have made the richest gold find in history was declared a fraud by an independent auditor, was removed from the Toronto exchange's 100 and 300 Composite indexes after Bre-X executives met exchange officials.

Shares of the exploration company, which is based in Calgary, Alberta, may never trade again if Montreal and Alberta exchange officials decide to follow Toronto's example and delist Bre-X. Montreal officials are expected to meet with Bre-X executives on Thursday.

The Nasdaq market did not allow the stock to trade after the weekend report and it suspended trading at least until next Tuesday.

LANGUAGE: ENGLISH

LOAD-DATE: May 8, 1997

LEVEL 1 - 3 OF 20 STORIES

Copyright 1997 The New York Times Company: Abstracts  
WALL STREET JOURNAL

May 8, 1997, Thursday

SECTION: Section A; Page 4, Column 3

LENGTH: 42 words

HEADLINE: BRE-X SHARES ARE DELISTED IN TORONTO AS POLICE MAP THEIR PROBE OF  
GOLD CLAIM

BYLINE: BY MARK HEINZL

ABSTRACT:

Toronto Stock Exchange delists Bre-X Mineral Ltd stock after furious trading May 7 in which shares gain 0.5 Canadian cents to close at 9 cents (6.5 US cents); RCMP commercial-crimes unit gathers evidence regarding Busang (Indonesia) gold claim (M)

LANGUAGE: ENGLISH

LEVEL 1 - 4 OF 20 STORIES

Copyright 1997 The New York Times Company: Abstracts  
WALL STREET JOURNAL

May 8, 1997, Thursday

SECTION: Section A; Page 22, Column 1

LENGTH: 22 words

HEADLINE: REVIEW & OUTLOOK: BRE-X ON SPEC

ABSTRACT:

Editorial scolds investors, and Toronto Stock Exchange, who were taken by Bre-X Minerals Ltd's hyped up claims of major gold find

LANGUAGE: ENGLISH

## LEVEL 1 - 5 OF 20 STORIES

Copyright 1997 The New York Times Company  
The New York Times

May 7, 1997, Wednesday, Late Edition - Final

SECTION: Section D; Page 1; Column 1; Business/Financial Desk

LENGTH: 556 words

HEADLINE: BUSINESS DIGEST

BODY:

Nationsbank in Winning Bid For Brazilian Privatization

The on-again, off-again privatization of Vale do Rio Doce, the Brazilian state-owned mining giant, proceeded, with a group financed by Nationsbank emerging as the winner with a \$3.13 billion bid.

The purchase, which is being led by the Brazilian steelmaker Companhia Siderurgica Nacional, was completed only after the Government managed to throw out an injunction that had been granted at the request of the mining company's workers. [Page D8.]

Britain in Shift on Monetary Role

After raising short-term interest rates, Britain's newly elected Labor Government gave Britain's central bank control over interest rates in the future. The move to remove politics from interest-rate decisions cheered the opposition, European leaders and financial executives, among whom Prime Minister Tony Blair was seeking immediate credibility. [A1.]

Factory Orders Fell in March

Orders placed with factories fell 1.6 percent in March, the largest decline in seven months, indicating that the manufacturing economy might be cooling. [D2.]

Canadian Mining Stock Plummets

Stockholders dumped their shares of Bre-X Minerals after an auditor labeled its purported gold find a hoax, reducing the stock's value to little more than the cost of the paper on which the certificates are printed. [D2.]

Deal to End Chrysler Strike Seen

Negotiators for the U.A.W. and Chrysler have reached an agreement to end a costly engine factory strike that has shut down the company's production of pickups and Jeep Grand Cherokees for nearly a month, people close to the talks said. [A16.]

More Savings Seen in Bell Merger

The merger of Bell Atlantic and Nynex may produce \$200 million more in savings than the two phone companies originally predicted. But they denied a report that they planned to lay off 10,000 employees within five years. [D4.]

11 Bre-X

Dow Higher, but Other Indexes Off

One day after surging to a record, the Dow Jones industrial average struggled to another high, but most stock measures dipped. The Dow rose 10.83 points, to 7,225.32. [D8.]

Gruntal in E.E.O.C. Settlement

The E.E.O.C. said that the Gruntal brokerage firm had agreed to pay \$750,000 to six current and former female employees, in one of the largest settlements stemming from a Federal investigation into sexual harassment in the workplace. [B9.]

Tobacco Industry Offer Rejected

In talks with state attorneys general and public health advocates, cigarette industry negotiators offered a proposal that would sharply limit the types of lawsuits smokers could bring and the money they would receive, people familiar with the meeting said. But the proposal was rejected. [A18.]

Newsweek Recalling Special Issue

Newsweek is recalling its "Your Child" issue because it contained a recommendation that parents let 5-month-olds hand-feed themselves raw carrot chunks and zwieback -- which can cause choking in children so young. [D7.]

I.B.M. Encryption Development

I.B.M. plans to announce that two of its researchers have come up with a computer encryption formula that they say is nearly impossible to crack, though a computer security consultant was skeptical of the value of the advance. [D20.]

GRAPHIC: Photos.

Chart: "YESTERDAY"

Dow Industrials -- 7,225.32 up 10.83  
30-yr. Treasury yield -- 6.88% Unchanged  
The Dollar -- 125.40 yen down 1.13

Graphs: "TODAY"

"Consumer Borrowing"

March figures due at 3 P.M. Eastern.

Expected: \$6.8 billion.

"U.S. Productivity"

First-quarter figures due at 10 A.M. Eastern.

Expected: +2.4%.

LANGUAGE: ENGLISH

LOAD-DATE: May 7, 1997

LEVEL 1 - 6 OF 20 STORIES

Copyright 1997 The New York Times Company  
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May 7, 1997, Wednesday, Late Edition - Final

SECTION: Section D; Page 2; Column 5; Business/Financial Desk

LENGTH: 751 words

HEADLINE: Shares of Bre-X Plummet, Becoming Nearly Worthless

BYLINE: By ANTHONY DePALMA

DATELINE: TORONTO, May 6

BODY:

Stockholders dumped the shares of Bre-X Minerals Ltd. at a blistering rate today, reducing the value of the widely held company to little more than the cost of the paper on which its certificates are printed.

Last Friday, Bre-X shares closed at \$3.23 in Toronto and \$2.375 on Nasdaq. This morning, the stock opened at 6 cents (Canadian), or 4.4 cents (United States), on the Toronto Stock Exchange as trading resumed for the first time since the company's purported gold find in Indonesia was labeled a hoax by an independent auditor late Sunday night. The stock closed at 8.5 cents (Canadian) -- little more than 6 cents (United States).

At their height about a year ago, Bre-X shares sold for as much as \$200 (United States), before being split 10 for 1.

In the United States, where Bre-X is listed on Nasdaq, trading was suspended and will not resume until the market's listing-qualifications panel gets some answers from company officials about reports that drilling samples from the site had been tampered with to make it appear that Bre-X had found the gold strike of the century.

"We have no obligation to trade companies that have admitted to fraudulent claims," the president of the Nasdaq market, Alfred Berkeley, said in a statement today. Bre-X officials have been asked to appear before the panel next Tuesday.

The Toronto Stock Exchange is also considering whether the plunge in the company's share price means that Bre-X no longer meets the capital requirements for being listed. Once valued at more than \$6 billion, even though it had never commercially produced an ounce of gold, Bre-X is now worth \$18.6 million (Canadian) -- \$13.5 million (United States) -- at today's closing price. There are some 219 million shares outstanding.

With trading halted in the United States, activity focused on Toronto today, as Bre-X investors tried to squeeze out whatever value they could get. In the first hour of trading this morning, more than 35 million shares changed hands. The sheer volume overwhelmed communication lines and forced the Toronto

exchange, which recently became totally computerized, to shut down its operations for about an hour.

By the end of the session, more than 58 million shares of Bre-X had been traded, surpassing by roughly 50 percent the previous record for daily activity in a single stock.

Among those buying the near-worthless stock were investors who had sold Bre-X short last week when it was still valued above \$3 a share. Thus, those who had agreed to sell the shares this week at, say, \$2 each stood to make a profit by buying them today for pennies.

And analysts said there were still buyers looking for bargains now -- betting that the volatile mining stock might yet rise, based on rumors circulating over the Internet that the Bre-X site might actually hold some of the 70 million to 200 million ounces of gold that company officials had first contended.

Today's frenzied trading "has got nothing to do with value," said John J. Woods, editor of Stock Watch, a newsletter. "It has to do with potential rumors."

Bre-X became virtually worthless when an independent mining consultant, hired by the company to clear up doubts about the Indonesian site, concluded that the only gold found in Bre-X's thousands of samples had been falsely planted there.

Indonesian authorities and the Royal Canadian Mounted Police are looking at the details of the Bre-X case as they determine whether to bring criminal charges against the company and its officials, several of whom became millionaires by selling Bre-X shares months ago.

The Indonesian Government has also suspended work on two other mining sites controlled by companies owned by the Bre-X officials.

Bre-X's chairman, David G. Walsh, said the company had hired a private investigator to find out who was responsible for bringing it down.

The damage is not limited to Bre-X, which is based in Calgary, Alberta. Large Canadian pension funds that held Bre-X stock have suffered substantial losses. Other Canadian mining and exploration companies will have a hard time raising money for future projects, and the big Toronto brokerage firms that relentlessly promoted the stock have been forced to share some responsibility for what went wrong. //

"This is an embarrassment to the entire Canadian mining industry," said Doug Leishman, a mining analyst at Yorkton Securities Inc. Retail Group in Vancouver. "And it will leave a black mark on the Toronto Stock Exchange."

LANGUAGE: ENGLISH

LOAD-DATE: May 7, 1997



LEVEL 1 - 7 OF 20 STORIES

Copyright 1997 The New York Times Company  
The New York Times

May 6, 1997, Tuesday, Late Edition - Final

SECTION: Section D; Page 17; Column 1; Business/Financial Desk

LENGTH: 349 words

HEADLINE: FUTURES MARKETS;  
Gold Surges as Audit Reveals Faked Indonesian Discovery

BYLINE: By Bloomberg News

BODY:

Gold prices surged in New York yesterday after the report that an audit had found no gold worth mining at the Indonesian site discovered by Bre-X Minerals Ltd. of Canada. The disclosure erased any lingering expectations for a surge in worldwide gold production.

On other markets, wheat prices fell.

Bre-X said an independent test showed only trace amounts of gold at its Busang field, once hailed as the world's largest gold discovery. The company said that earlier estimates had been based on falsified samples.

While Busang would not have begun producing gold until after 2000, according to analyst estimates, the prospect of a huge eventual jump in mine output helped weigh on gold prices in recent months. In February, Bre-X had said the project could produce as much as 200 million ounces of gold.

"Gold is bouncing higher on the possibility that 200 million ounces of gold coming on stream in the next few years isn't going to happen," said Michael Martin, an analyst at Sinclair Group in New York.

Gold for June delivery rose \$2.70, to \$344.30 an ounce, on the Comex division of the New York Mercantile Exchange. That was the highest price for the active contract since April 21 and was the biggest one-day gain since April 1.

*Comex*

Wheat fell for a third day as rain nourished dry crops in Europe, diminishing prospects that crop damage could increase demand for United States grains at a time of lean domestic reserves.

Rain fell in Western Europe this weekend and more is expected in the days ahead, according to the Weather Services Corporation of Lexington, Mass.

The possibility of a reduced European crop had helped fuel a rally in wheat prices last month.

"Clearly the rains are crop-saving and leave open potential for normal crop yields," said Jeff Wilson, an analyst at Brock Associates in Milwaukee. "There's really no reason to take this market higher."

July soft red winter wheat fell 5.25 cents, to \$4.1125 a bushel, on the Chicago Board of Trade. July hard red winter wheat fell 11 cents, to \$4.315 a bushel, on the Kansas City Board of Trade.

LANGUAGE: ENGLISH

LOAD-DATE: May 6, 1997

## LEVEL 1 - 8 OF 20 STORIES

Copyright 1997 The New York Times Company  
The New York Times

May 6, 1997, Tuesday, Late Edition - Final

SECTION: Section A; Page 1; Column 1; Business/Financial Desk

LENGTH: 1181 words

HEADLINE: Small Investors and Big Money Taken by Tale of Jungle Gold

BYLINE: By EDWARD WYATT

BODY:

Late last year, the guardians of the retirement savings of millions of ordinary Americans waded into the steamy jungle of Indonesia to get a piece of what looked like the investment opportunity of a lifetime. Bre-X Minerals Ltd., a previously unknown Canadian exploration company, was issuing ever-growing estimates of the century's largest gold discovery, and dozens of mutual fund managers could not get into the action quickly enough.

Today, many of those funds -- and, by proxy, their shareholders -- are victims of a once-in-a-generation fraud that turned their investments of close to \$500 million into little more than some worthless holes in the ground. The Bre-X mine in the Busang area of Borneo, an independent consultant said Sunday, contained an insignificant amount of gold.

That some of the country's biggest and smartest mutual fund companies -- including Fidelity Investments, American Express Financial Advisors, Invesco and U.S. Global Investors -- went far afield from their typical discipline to invest in Bre-X is a testament to the frenzy that engulfed mutual fund investors and managers last year. For many of them, Bre-X is likely to be long remembered as a hard lesson about how some risks -- such as the danger of investing on limited information -- cannot be diversified away, even by the most experienced professionals.

In addition, the Bre-X experience makes clear that investors might have a vastly different view of what constitutes a successful investment than do their fund managers. Many managers who bought Bre-X shares early and low consider their investments to be winners because they sold some holdings at big gains, even though they were left holding some Bre-X shares when the stock cratered. But investors who came into the funds on the strength of rising prices shared in little, if any, of the gains.

Yesterday, trading in Bre-X shares, which are listed on both the Toronto Stock Exchange and the Nasdaq national market, was halted as officials in the United States and Canada reviewed the company's financial condition. Bre-X vowed to "gain a full understanding" of how the fraud occurred.

To understand how thousands of American mutual fund investors were suckered into buying into a worthless Indonesian gold mine, one need only look back at a frigid inlet on the northern coast of Newfoundland.

*Debra-  
Retirement  
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U.S. Citizens  
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In 1994, geologists working there for a struggling Canadian mining company called Diamond Field Resources found what turned out to be the world's largest deposit of nickel. Few American investors participated in the \$4 billion strike, save those who held shares in one United States mutual fund, the Robertson Stephens Contrarian fund, which had taken a small stake in Diamond Field. After the nickel discovery, the value of the fund's investment vaulted fortyfold over the next two years.

Since then, mutual fund managers have scrambled to find the next Diamond Field -- an unexpected strike of mammoth proportions that could generate untold profits. That search took on an even greater urgency last year as billions of dollars flowed into stock funds and the market indexes soared, making it ever more difficult for the average fund manager to keep up.

Even professionals who saw some warning signs in the Bre-X mania, as the company's stock price rose from pennies a share to more than \$20, got caught holding Bre-X shares. "It is evident that many institutions that have never invested in junior exploration companies are entering this high-risk game, hoping to find the next Bre-X or Diamond Field," Frank Holmes, president of U.S. Global Investors, wrote to shareholders in the U.S. World Gold fund in April 1996.

The fund failed to heed its own warning, however, and at the end of last year owned 250,000 Bre-X shares, accounting for 1.7 percent of the fund's total portfolio. In the last week of March, when Bre-X first disclosed the possibility of fraud, the fund lost nearly 7 percent of its value as the price of its remaining Bre-X shares plunged, dragging down the entire gold market.

"I believe over all the investment was a successful one for shareholders," Victor Flores, portfolio manager of the U.S. World Gold fund, said in an interview yesterday. "We invested early in the company, and had an average entry price into the stock of \$1.20 a share." For most of those shares, "our exit price was somewhere around \$20."

Only shareholders who were in the fund from the time it made its initial Bre-X purchase, in mid-1995, enjoyed all those gains, however. Anyone investing in the fund in the last year bought into a Bre-X investment that was already valued at close to \$20 a share; those investors made very little on the Bre-X investment. Over the last year, the value of the U.S. World Gold fund has fallen more than 19 percent.

As for most big American mutual funds, they started to buy the shares only after Bre-X had already made most of its spectacular run-up. According to data from CDA/Spectrum, which tracks institutional holdings, only two institutions that manage more than \$100 million in assets owned Bre-X shares at the end of June 1996. Over the next three months, eight more joined them, and in the fourth quarter of last year, a dozen more piled in. Only two fund companies sold their entire Bre-X investment before the end of 1996: Lexington Management and Paine Webber.

"It's tough when you see your competition owning a stock that is driving their performance, and you don't own it," said Richard H. Warden, manager of the American Express/IDS Precious Metals fund, which at the end of December had 8.9

percent of its \$120 million portfolio in Bre-X shares -- more than any other American mutual fund. "We sold the last of it in early April, and we made just under \$10 million on the stock since mid-1995."

But investors in the fund might view that "success" somewhat skeptically. In the last week of March, when Bre-X shares plunged and depressed other mining shares, the IDS Precious Metals fund lost 14 percent of its value. So far this year, it has fallen 22 percent.

Several of the most popular general stock funds of Fidelity Investments also owned Bre-X shares, including Magellan, Asset Manager, Contrafund, Strategic Opportunities and Mid-Cap Stock. Fidelity was the largest institutional shareholder in Bre-X at year-end, owning 15.9 million shares, or more than 7 percent of the company's total stock.

Investors in funds cannot -- and should not -- review every holding of their fund to make sure it is a reliable, trustworthy company. That is what they pay investment managers to do. But clearly, fund shareholders can ask their fund company what it does to screen investments that go far afield from a fund's charter, or what experts it uses when it invests in technical fields.

Other fund companies might take a lesson from Robertson, Stephens, which made millions of dollars on its investment in Diamond Field, the nickel mining company. Thanks to an evaluation of Bre-X's potential by its own geologist, the Robertson, Stephens funds never invested in Bre-X.

LANGUAGE: ENGLISH

LOAD-DATE: May 6, 1997

## LEVEL 1 - 9 OF 20 STORIES

Copyright 1997 The New York Times Company  
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May 6, 1997, Tuesday, Late Edition - Final

SECTION: Section D; Page 1; Column 2; Business/Financial Desk

LENGTH: 1432 words

HEADLINE: Market Place: Oh, Canada;  
For Exchanges North of Border, A Fresh Fraud

BYLINE: By FLOYD NORRIS

BODY:

The Bre-X Minerals fraud, in which a gold find said to be worth billions of dollars turned out to have no gold worth mining, may turn out to be the most costly stock market fraud ever. But in one respect, it was a case of *deja vu*. Once again, American investors had lost big by purchasing Canadian stocks.

The Canadian markets are hardly the only ones ever to be marred by fraud. The British had Robert Maxwell, the media baron whose companies were real but whose balance sheets were not; the American markets have contributed a long list of fraudsters, among them Barry Minkow, the teen-age wonder whose carpet cleaning business, ZZZZ Best, was mostly fictitious, and Crazy Eddie Antar, the crooked electronics salesman.

But it seems like Canada produces more stock market fraud, at least per capita, than do other countries. And there may be good reasons for concern. Unlike other major industrial nations, Canada has no national regulatory agency for securities but leaves the task to the provinces, which pursue oversight with varying degrees of enthusiasm. And efforts at reform have been incomplete.

Now, with Bre-X, Canadian stock fraud has hit a new peak, at least in terms of dollars. At its height last year, Bre-X was valued by the stock market at more than \$4 billion (United States). There have been other companies that gained large valuations without anything behind them, but never this large.

In one sense, Bre-X represents an unfortunate tradition, that of the junior mining company, for which the Vancouver and Alberta stock exchanges have been notorious since scandals involving phony Canadian uranium companies erupted four decades ago. The listing rules for junior companies are lax, and there have been many companies that traded for far more than they turned out to be worth.

There have been assorted efforts at reform in Canada, and some progress. A British Columbia commission, recommending reforms in 1994, denounced "the continuing occurrence of scams, swindles and market manipulations" in Vancouver. Changes have been made, but some of the commission's most important proposals were rejected.

Canadian officials resent their markets' bad image, which Rowland W. Fleming, the president of the Toronto Stock Exchange, yesterday called "a legacy factor

with the Vancouver Stock Exchange, rather than a reality today."

Bre-X, he said, "was a scam of unprecedented proportions." But, he added, other scams had happened in the United States.

Jack Geller, the chairman of the Ontario Securities Commission, said in an interview yesterday that Canada's reputation for securities fraud "is not fair." The Toronto exchange, he said, "is one of the world's most satisfactory exchanges." And Vancouver and Alberta? "I don't comment on exchanges outside my jurisdiction," he said.

American securities regulators speak with dismay of frauds emanating from Canada, but do so only when assured they will not be named. "There are international sensibilities here," one said yesterday.

Still, one neighbor of British Columbia -- Deborah Bortner, the Washington State securities administrator -- said that she was getting fewer complaints about Canadian frauds than she used to receive. And all the American regulators concede that frauds do emerge in this country as well. Bre-X was able to gain a listing in the United States, on the Nasdaq national market, and Mr. Fleming said that even in retrospect he could not see any reason for an exchange to have refused to list it.

For most of its life, Bre-X attracted little attention, inside or outside Canada. It was founded in 1988, with David Walsh as president, and listed on the Alberta Stock Exchange. Its early annual reports were full of hope for a variety of projects, but none of them panned out.

By 1993, though, the company was excited about prospects far from Canada. It had hired John B. Felderhof, a geologist, to look for gold in Indonesia. By early 1994, it had identified the Busang project and had persuaded a small but respected Canadian securities firm, Loewen, Ondaatje, McCutcheon, to raise money for the company by selling stock.

The share price, in Canadian dollars, showed signs of life. From less than 25 cents in 1991, it rose to \$1 in late 1993. By late 1994, the price was up to \$3. In April 1995, the company's annual report highlighted Busang, saying its chances were "excellent to become a major gold producer."

In August 1995, Mr. Walsh said that the property could produce 500,000 ounces of gold a year. And a Bre-X director, Paul Kavanagh, added, "It has the potential to be one of the top-producing gold mines in the world."

By then, the stock price was zooming, reaching \$15 a share that month. And as more optimistic reports came out of Indonesia, the price kept rising -- to \$50 in October, and then to more than \$100 in February 1996. At that point, there were reported to be 40 million ounces of gold in Busang.

Last April, the stock moved to the Toronto Stock Exchange, Canada's most prestigious. The share price was at more than \$200 by late May, when the shares were split 10 for 1, and by the time the price peaked, just after the split, Bre-X sold for \$28.16, the equivalent of \$281 in the old shares. An August listing on the Nasdaq market in this country gave the stock more visibility.

By the time of the split, though, some insiders were starting to cash in. In April and May 1996, Mr. Felderhof took in \$26 million (Canadian). In September, he realized another \$5 million. Mr. Walsh and his wife, Jeannette, the company's secretary, took in \$28 million selling shares from April through November, according to CDA/Investnet, which monitors insider filings. At current exchange rates, in American dollars those sales amounted to more than \$22 million for Mr. Felderhof and more than \$20 million for the Walshes.

It was around the time that the insiders were starting to sell that American institutions got interested. Filings with the Securities and Exchange Commission show no institutional ownership of Bre-X as late as March 1996, and only a couple of owners at the end of June. But the total swelled by the end of September, and at the end of last year, institutions reported owning 28.2 million shares, then worth \$441 million (United States), according to CDA.

Bre-X stock did weaken somewhat in late 1996, but not because people doubted the gold was there. Instead, there was fear that Indonesian politics would result in the company losing its stake. In the end, an Indonesian company with close ties to the Government got a stake, as did Freeport-McMoran Copper and Gold, an American company long active in Indonesia. But Bre-X kept a big part.

No one focused on the fact that while the Bre-X samples that showed a lot of gold had been tested by several laboratories, there had been no independent gathering of samples.

Then, in March, a Bre-X geologist fell to his death from a helicopter in Indonesia, in what was labeled a suicide. That scared some investors, but the price did not collapse until the end of the month, when Freeport-McMoran reported that its own tests showed no significant gold.

Bre-X held out hope that new samples would show Freeport-McMoran was wrong, but an independent evaluation, released over the weekend, concluded there was no gold worth mining at Busang. Mr. Walsh issued a statement saying he was "devastated." The consultant who conducted the study concluded that the original Bre-X samples, on which the optimism was founded, had been faked. Just who did that is under investigation.

Bre-X shares last traded at \$2.375 (United States) -- the equivalent of \$23.75 on the pre-split shares -- but they were not allowed to trade yesterday. There is almost certainly no value left in the shares.

Since nearly all the American institutions -- most of them mutual fund companies -- that bought the stock did so after its peak, it is certain that they lost money. How much was lost is not clear, but it was substantial.

Mr. Geller, the Ontario regulator, said that it appeared that criminal laws had been broken in the Bre-X case, and that it was thus up to the police, not his agency, to investigate. But, he said, if the Canadian police did refer any securities violations to him, he would act.

Mr. Fleming, the head of the Toronto exchange, voiced the hope that something good would come out of the scandal. "Maybe this will act as the much-needed stimulus to get Canada to have a national securities regulator," he said.



In the meantime, it will not do anything to improve the image of Canada's markets.

GRAPHIC: Graph: "Fool's Gold"

Obscure Bre-X Minerals stumbled on what looked like a huge gold find at Busang in Indonesia in 1993. As estimates of the holdings climbed, insiders exercised cheap options and sold millions of shares at high prices. But in March came word that Busang is just a goldless jungle. Graph tracks Bre-X's stock price in Canadian dollars, adjusted for splits, since the beginning of 1995. (Sources: Bloomberg Financial Markets, CDA Investment Technologies [insider trading])

LANGUAGE: ENGLISH

LOAD-DATE: May 6, 1997

LEVEL 1 - 10 OF 20 STORIES

Copyright 1997 The New York Times Company  
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May 6, 1997, Tuesday, Late Edition - Final

SECTION: Section D; Page 1; Column 5; Business/Financial Desk

LENGTH: 1081 words

HEADLINE: Bre-X: From Rags to Riches, Back to Rags

BYLINE: By ANTHONY DePALMA

DATELINE: OTTAWA, May 5

BODY:

The American and Indonesian companies that only a few months ago were fighting for the right to help Bre-X Minerals Ltd. of Canada mine in what had been touted as this century's richest gold strike walked away from the project today and left Bre-X on its own to defend what is being called one of the scams of the century.

The small rags-to-riches-to-rags company, based in Calgary, Alberta, now faces the fallout from a devastating report concluding that the Indonesian mother lode at Busang was nothing but a fabulous tale backed by false hopes and counterfeit data.

The finding is likely to wipe out whatever value is left in Bre-X's battered stock. It will also cast a shadow over Canadian wildcatters and miners, making it difficult for small companies to build the trust needed to raise capital for future projects.

"I've never seen a fraud on this scale," said James R. Moffett, chairman of Freeport-McMoran Copper and Gold of New Orleans. That company, Bre-X's former partner, officially withdrew today. At the same time, Mohamad (Bob) Hasan, an Indonesian businessman and confidant to President Suharto, announced that he, too, was pulling out of the Busang project.

"The good guys will go on while the bad guys fall by the wayside," Mr. Hasan said in Jakarta. "Life goes on."

Strathcona Mineral Services of Toronto, an independent consultant, had been hired by Bre-X in March to clear up doubts about the company's estimate that the Busang discovery contained 70 million to 200 million ounces of gold, worth \$70 billion.

Instead, Strathcona concluded that "there is virtually no possibility of an economic gold deposit" on Bre-X's Busang site in Borneo. Furthermore, Strathcona confirmed the suspicion of many experts that drilling samples had been tampered with to inflate gold estimates. The report was released early today in Jakarta, late Sunday evening in New York.

The falsification of samples was done "on a scale and over a period of time and with a precision that to our knowledge is without precedent in the history of mining anywhere in the world," the Strathcona report said.

"The gold recovered in samples submitted by Bre-X has originated from a source other than the southeastern zone of the Busang property," it concluded.

"The report didn't say salted but that's just a nice way for them to avoid a lawsuit," said Sam Romberger, a professor of geology at the Colorado School of Mines. Salting is the mining-industry phrase for lacing drilling samples with particles of gold from a source other than where the drilling had taken place.

Professor Romberger said it appeared to have been a not very sophisticated attempt at fraud, in part because the gold used to salt the samples had characteristics clearly showing it came from someplace else.

One important question not addressed by Strathcona is specifically who is responsible for the actions that took in thousands of big and small investors.

To the groups of shareholders who have already filed several class-action suits against Bre-X, the answer seemed clear. "We've been pleading conspiracy to defraud all along," said Harvey T. Strosberg, a lawyer from Windsor, Ontario, representing about 100 Canadian investors.

Suspicion is also being directed at one of Bre-X's chief geologists, Michael T. de Guzman, who worked most closely in gathering the hundreds of core samples on which Bre-X's rosy estimates were based. However, Mr. de Guzman died in a mysterious fall from a helicopter in March. Local police authorities said notes found in the helicopter indicate that Mr. de Guzman committed suicide because he was suffering from hepatitis B, something his family says it doubts.

Larry Waite, director of enforcement at the Ontario Securities Commission said, "The new developments are obviously of interest to many regulatory authorities, including us." And the commercial crime unit of the Royal Canadian Mounted Police is studying the Strathcona report to determine if a criminal investigation is warranted.

In Indonesia, the Minister of Mines and Energy, Ida Bagus Sudjana, told reporters that the Government would take legal action against Bre-X. "Every law breaker must be punished," he said.

While the accusations are being sorted out, trading in Bre-X shares have been suspended on every exchange where they are listed, including the Toronto Stock Exchange and Nasdaq. Trading will resume Tuesday.

After Freeport raised doubts in March about the validity of Bre-X's glowing forecasts and the circumstances surrounding the death of Mr. de Guzman, the company's stock plummeted.

It once traded for more than \$20 a share in both Canadian and American dollars after a 10-for-1 stock split. Before the Freeport report, it was valued at \$15.50 on the Toronto exchange and \$11.375 on Nasdaq. Last Friday, the stock dropped to \$3.23 in Toronto and \$2.375 on Nasdaq.

The company's chairman and chief promoter, David G. Walsh, was in Calgary

today expressing shock and disappointment at the findings and promising to get down to the bottom of the mystery. His chief of exploration, John B. Felderhof, was at his beachside home in the Cayman Islands insisting that neither he nor anyone on his staff had been involved in fraud.

"I personally still believe that there are significant amounts of gold at Busang," he said in a statement faxed from the Cayman Islands.

Mr. Walsh and Mr. Felderhof became millionaires as the gold fever pushed up the price of the Bre-X shares. They managed to keep tenuous control of the Busang property in spite of stiff competition from larger companies. They also survived the political intrigue that accompanies doing business in Indonesia.

Investors who bought into Bre-X early and sold before the problems emerged in March made millions of dollars, even though the company never turned a profit. However, stockholders who held their shares until Bre-X's drilling estimates were questioned lost more than \$3 billion in total.

"I guess I should have sold it all but I was a bit dumb," said Aksel Gustavsen, 79, a retired farmer now living in Calgary, who has been on the Bre-X roller coaster. He said that in the good times he made about \$150,000 buying and selling the company's stock. When Bre-X crashed in March, the value of his remaining shares lost about \$10,000 of their value in a few minutes.

"A lot of people have lost their bread-and-butter money," Mr. Gustavsen said. "This shouldn't happen in the land of Canada."

GRAPHIC: Photo: An Indonesian businessman, Mohamad (Bob) Hasan, withdrew from the project yesterday, saying in Jakarta that Bre-X should be punished. (Reuters) (pg. D21)

LANGUAGE: ENGLISH

LOAD-DATE: May 6, 1997

LEVEL 1 - 11 OF 20 STORIES

Copyright 1997 The New York Times Company: Abstracts  
WALL STREET JOURNAL

May 6, 1997, Tuesday

SECTION: Section A; Page 1, Column 4

LENGTH: 175 words

HEADLINE: GOLD-FRAUD RECIPE? BRE-X WORKERS SAW MINE SAMPLES MIXED

BYLINE: BY PETER WALDMAN

ABSTRACT:

Indonesian workers at Bre-X Minerals Ltd warehouse in Loa Duri (Indonesia) say they helped Bre-X geologists and metalurgists mix reddish, white and gold-colored powder into pulverized ore samples from Busang gold mine; independent assay by Strathcona Mineral Services Ltd has found very little gold in Busang ore, and says illusion of big find was created by salting ore samples with foreign gold; Wall Street Journal probe of chain of custody of Busang samples has found Bre-X violated many of industry's standards for handling ore samples (L)

LANGUAGE: ENGLISH

LEVEL 1 - 12 OF 20 STORIES

Copyright 1997 The New York Times Company: Abstracts  
WALL STREET JOURNAL

May 6, 1997, Tuesday

SECTION: Section A; Page 3, Column 1

LENGTH: 44 words

HEADLINE: BRE-X PROBE INTENSIFIES AS TESTS FIND LITTLE GOLD

BYLINE: BY MARK HEINZL

ABSTRACT:

Royal Canadian Mounted Police's commercial-crimes unit, Ontario Securities Commission and SEC intensify probe of Bre-X Minerals Ltd (Canada) a day after independent assay found only 'trace' amounts of gold at Bre-X's Busang (Indonesia) mine; chronology (M)

GRAPHIC: Graph

LANGUAGE: ENGLISH

LEVEL 1 - 13 OF 20 STORIES

Copyright 1997 The New York Times Company: Abstracts  
WALL STREET JOURNAL

May 6, 1997, Tuesday

SECTION: Section A; Page 1, Column 4

LENGTH: 175 words

HEADLINE: GOLD-FRAUD RECIPE? BRE-X WORKERS SAW MINE SAMPLES MIXED

BYLINE: BY PETER WALDMAN

ABSTRACT:

Indonesian workers at Bre-X Minerals Ltd warehouse in Loa Duri (Indonesia) say they helped Bre-X geologists and metallurgists mix reddish, white and gold-colored powder into pulverized ore samples from Busang gold mine; independent assay by Strathcona Mineral Services Ltd has found very little gold in Busang ore, and says illusion of big find was created by salting ore samples with foreign gold; Wall Street Journal probe of chain of custody of Busang samples has found Bre-X violated many of industry's standards for handling ore samples (L)

LANGUAGE: ENGLISH

LEVEL 1 - 14 OF 20 STORIES

Copyright 1997 The New York Times Company: Abstracts  
WALL STREET JOURNAL

May 6, 1997, Tuesday

SECTION: Section A; Page 3, Column 1

LENGTH: -44 words

HEADLINE: BRE-X PROBE INTENSIFIES AS TESTS FIND LITTLE GOLD

BYLINE: BY MARK HEINZL

ABSTRACT:

Royal Canadian Mounted Police's commercial-crimes unit, Ontario Securities Commission and SEC intensify probe of Bre-X Minerals Ltd (Canada) a day after independent assay found only 'trace' amounts of gold at Bre-X's Busang (Indonesia) mine; chronology (M)

GRAPHIC: Graph

LANGUAGE: ENGLISH



## LEVEL 1 - 15 OF 20 STORIES

Copyright 1997 The New York Times Company  
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May 5, 1997, Monday, Late Edition - Final

SECTION: Section A; Page 2; Column 3; Metropolitan Desk

LENGTH: 1665 words

HEADLINE: NEWS SUMMARY

BODY:

INTERNATIONAL A3-8

#### Mobutu Offers to Quit But Seeks a Transition

Zaire's President, Mobutu Sese Seko, met for the first time with the rebel leader, Laurent Kabila. Mr. Mobutu said he would relinquish power, but only to a transitional authority that would organize elections. Mr. Kabila insisted that power be handed directly to him and vowed to press on with his military campaign. A1

More than 100 Rwandan Hutu refugees suffocated or were crushed to death in a badly overcrowded train in Zaire, a United Nations official said. The train was carrying them from a refugee camp to Kisangani, where they were to be airlifted home. The railway is controlled by Zairian rebels, who have either resisted or cooperated only reluctantly with the United Nations effort to return the refugees to Rwanda. A6

#### A Gypsy Is Beatified

Ceferino Jimenez Malla, an illiterate Spanish horse trader executed by a firing squad during the Spanish Civil War, became the first Gypsy ever beatified by the Roman Catholic Church. An estimated 3,000 Gypsies gathered in Rome for the ceremony, an early step on the way to sainthood and the latest act in an effort by Pope John Paul II to enhance the church's standing in Eastern Europe and among developing nations. A1

#### Tories at War Over Europe

Divisions in Britain's Conservative Party over European integration deepened in the wake of their electoral defeat. Kenneth Clarke, the former Chancellor of the Exchequer who is running for party leader, said "zealots" inside the party should not be allowed to make the leadership race turn on the Europe issue. But Peter Lilley, one of Mr. Clarke's opponents, said he would insist that the party stand clearly against Britain's further integration in Europe. A3

#### Report on Mid-Air Collision

The mid-air collision between a Kazakstan Airlines Ilyushin 76 and a Boeing 747 of Saudi Arabian Airlines in November occurred when the Kazak craft descended nearly 1,000 feet below the 15,000-foot altitude assigned to it by Indian air traffic controllers, investigators said. The descent put the Kazak plane in the path of the Saudi 747, which had taken off minutes earlier from New Delhi. The

collision killed 349 people. A6

#### Fire at London Museum

A fire at London's Royal Academy of Arts damaged a small number of architectural drawings and one or two sculptures, a spokesman said. The fire at the academy, which holds the works of some masters, including Michelangelo, started on the roof, which had been under repair, fire officials said. (Reuters)

#### Bodies Found at Police Site

Chilean construction workers found the remains of four adults and a child at a site in downtown Santiago where a secret police detention center stood during the rule of Gen. Augusto Pinochet, the authorities said. A state commission has said about 2,000 people disappeared during the general's rule, from 1973 to 1990. (Reuters)

#### NATIONAL A10-13, B9-10

##### 2 Clinton Confidants Knew of Hubbell's Woes

Two of President Clinton's closest confidants understood the seriousness of Webster L. Hubbell's legal troubles even before he resigned as Associate Attorney General in March 1994, documents and interviews showed. The White House has maintained that the Clintons did not know then that Mr. Hubbell faced possible criminal charges. A1

##### States Move on Abortion Curb

States have begun outlawing the procedure known to its opponents as "partial birth abortion" even as a Federal ban has stalled. Eleven states have banned the procedure, known medically as "intact dilation and evacuation," out of 40 that have taken it up. Their actions have put pressure on some members of Congress to change their positions. A1

##### Both Sides Sell Budget Deal

White House officials and Republican leaders took to the airwaves to sell their balanced budget deal. Democratic opposition to the plan appeared to ease, though some doubts about it remained. B10

##### 2 From Texas Group Are Hunted

The Texas authorities continued searching for two missing members of a group that asserts that Texas is an independent nation. They vanished as the group's leader, Richard L. McLaren, was surrendering to end a weeklong standoff. The authorities said the men were surrounded and would be captured soon. A10

##### Fort Hood Crash Kills 4

A military Humvee and an Isuzu Trooper collided on a road on the grounds of Fort Hood in Texas, killing three soldiers and a Texas National Guardsman, the authorities said. The Trooper, which was carrying the three soldiers, flipped over twice and caught fire after colliding head-on with the Humvee, officials said. (AP)

##### Girl Killed; Brother Is Beaten

Two children reported missing from their Texas home were found, one dead and the other severely injured, the authorities said. The children, Cody and Sarah Patterson, were reported missing by their mother in Granbury, Tex., 35 miles southwest of Fort Worth. That night, Cody, 9, was found in a cemetery with a

fractured skull and other injuries. Two days later, Sarah, 11, was found dead with her throat slashed. Bobby Wayne Woods, 31, the mother's ex-boyfriend, has been charged with attempted murder in Cody's beating, the authorities said. (AP)

#### Fatal Shooting Overheard

A man shot his 10-year-old son and himself to death as his ex-wife listened over the telephone, the Denver police said. The man, Dell Polk, was talking to his ex-wife when he told her he was going to shoot their son, and the woman heard a loud bang, Sgt. Mark Lewis of the Denver police said. The woman, who was in Houston, then called the Denver police to report a shooting. The motive for the shootings was unclear, Sergeant Lewis said. (AP)

#### NEW YORK/REGION B1-8

#### Long Before Rent Fight, Landlords Were Preparing

New York City landlords and developers mounted a quiet, concerted effort to build their influence in state government through a large increase in campaign contributions in the years leading up to the current battle over ending rent controls, records and interviews showed. One stated aim of the effort was to seek an end to the rent regulation laws. A1

#### F.B.I. Sees End to Crash Case

The F.B.I. Director, Louis J. Freeh, said the evidence in the crash of T.W.A. Flight 800 pointed to a "catastrophic mechanical failure." He stopped just short of ruling out sabotage as the cause of the crash, but his comments were the strongest signal yet that the F.B.I. was moving toward abandoning its search for a crime in the crash. A1

#### Trial Begins in Megan's Case

The case that spawned scores of laws requiring communities to be notified about sex offenders in their midst goes to trial today. Jury selection is scheduled in a Trenton, N.J., courtroom for Jesse K. Timmendequas, a convicted sex offender who is accused of raping and killing a 7-year-old neighbor, Megan Kanka. Her name has survived in the term "Megan's Law," as many of the notification laws are known. B1

#### The Machine Strikes Back

The I.B.M. computer Deep Blue evened its match against Garry Kasparov, the world's best human chess player, winning the second game of their six-game match and stunning many chess experts with its strategy. Some compared the computer's performance to that of Anatoly Karpov, Mr. Kasparov's great rival. B1

#### Bike Tour Claims 2 Lives

A cyclist in the annual Bike New York ride lost control of his bike, hit his head on the pavement and was declared brain dead. Another rider died after a heart attack, the police and tour organizers said. They were only the second and third deaths in the tour's 20-year history. B3

#### SPORTSMONDAY C1-9

#### Small Field for Preakness

The field for the Preakness Stakes at Pimlico Race Course began taking shape. It will number no more than 12 horses. The Kentucky Derby winner, Silver Charm, and

the two runners-up, Captain Bodgit and Free House, will be among them. C9

BUSINESS DAY D1-13

Agreement in Goodyear Strike

Goodyear Tire and Rubber and the United Steelworkers of America reached a tentative agreement to end a two-week strike that had idled 12,000 workers in seven states. The agreement involves a six-year pact, the first longterm contract in the industry's history. But the workers will remain on the picket lines until it is ratified. D8

No Gold Mine After All

An independent testing company said the Indonesian jungle tract that had been touted as one of the biggest gold bonanzas ever contained no gold worth mining. The report also found evidence of significant tampering with assay samples from the site. The site's owner, Bre-X Minerals, a small Canadian exploration company, said it would investigate why its own findings were so glowing. D2

Business Digest D1

ARTS C11-16

Cannes Film Festival at 50

The Cannes Film Festival that opens on Wednesday is the 50th to be held, and organizers have planned an event heavy on nostalgia. C11

OBITUARIES B11

Robert A. Beck

Chairman and chief executive of Prudential Insurance for nine years, he played a leading role in the expansion of Prudential's operations beyond its traditional life insurance base. Mr. Beck, who took the company into residential home sales and the credit card business and directed the purchase in 1981 of the Bache Group Inc., parent of Bache Halsey Stuart Shields, was 71. B11

Gerald Freund

A veteran foundation administrator, he was the first director of the MacArthur Foundation's Prize Fellows Program, the program whose large awards have become known as "genius grants." He was 66. B11

EDITORIAL A14-15

Editorials: Justice on trial in Denver, a troubling audit for Harlem, letters from a Chinese jail.

Columns: Thomas L. Friedman, Anthony Lewis, Bob Herbert.

Chronicle B7

Bridge C16

Crossword C14

Weather B12

LANGUAGE: ENGLISH

LOAD-DATE: May 5, 1997

LEVEL 1 - 16 OF 20 STORIES

Copyright 1997 The New York Times Company  
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May 5, 1997, Monday, Late Edition - Final

SECTION: Section D; Page 1; Column 1; Business/Financial Desk

LENGTH: 597 words

HEADLINE: BUSINESS DIGEST

BODY:

Test of Bre-X Gold Site Finds Nothing to Mine

An independent consulting company has found no sign that there is gold worth mining at the Indonesian site discovered by Bre-X Minerals of Canada, which had contended that it had found the gold strike of the century.

Moreover, the audit concluded that initial drilling results had been deliberately doctored in an elaborate scheme to make the finds appear far richer than they actually were. The damaging report is likely to doom any chance Bre-X might have had to go forward with the project. [Page D2.]

2 Offers for Health Care Provider

Transitional Hospitals said that it had agreed to merge with Select Medical, a privately held provider of health care services, for \$565 million in stock. But Transitional said that it had also received a higher, cash offer from another health care provider, which it would not name. [D2.]

Goodyear in Deal With Union

Goodyear Tire and Rubber and the United Steelworkers union have reached a tentative agreement to end a two-week strike, but workers will remain on picket lines until the deal is ratified. [D8.]

Italian Merger Is Derailed

A merger that would have united some holdings of two of Italy's most prominent families, the Marzottos and the Agnellis -- and created one of the world's largest clothing conglomerates -- has been called off. [D10.]

Star-Crossed Sitcom That Thrived

Shortly after it was introduced, Fox's "Married . . . With Children" drew protests from some viewers and advertisers because of its lowbrow humor and often foul-mouthed celebration of the life of the family of Al Bundy, a working stiff played by Ed O'Neill. Yet the show thrived for 11 years and is now being retired only after giving birth to a number of imitators. Broadcasting. [D9.]

Book Recalled to Placate Muslims

Simon & Schuster moved to recall more than 4,000 copies of a book aimed at 10- to 12-year-olds that portrayed the prophet Muhammad as a cruel man who despised Jews and Christians. [D10.]

Cordiant Names an Executive

Cordiant, the ad agency company that plans to dismantle itself, said it had named an outside marketing executive to take over the reins of its Saatchi & Saatchi Advertising Worldwide unit. Kevin Roberts, former chief operating officer of Lion Nathan, a brewer based in New Zealand, was named chief executive. [D11.]

#### Executive Shuffle at Conde Nast

The publisher of Conde Nast Sports for Women, Deanna Brown, has been replaced by Suzanne Grimes, the publisher of TV Guide. And the editor in chief of another Conde Nast publication, Details, has resigned after learning that others were being interviewed for his job. [D11.]

#### Ticketmaster Suit's Effects

Whatever the outcome of Ticketmaster's suit against Microsoft, in which the software giant is accused of diluting Ticketmaster's trademarks on the World Wide Web, it is bound to reverberate across the Internet -- whether by changing the way Web sites are linked or by reaffirming Microsoft's power. Digital Commerce. [D4.]

#### Mechanical Cause of Crash Seen

Stopping short of ruling out sabotage as the cause of the crash of T.W.A. Flight 800, The F.B.I. director, Louis J. Freeh, said that the evidence in the case pointed to a "catastrophic mechanical failure," and emphasized the need to draw the criminal inquiry to a close. [A1.]

#### Long-Running Compensation Case

A workers' compensation case stemming from an incident in 1962 involving a Niagara Mohawk Power employee remains tied up in litigation, 35 years later. [A1.]

#### GRAPHIC: Photo

"LAST WEEK"Dow Industrials -- 7,071.20 Up 332.33  
30-yr. Treasury yield -- 6.88% Down 0.26  
The Dollar -- 126.57 yen Up 0.32

LANGUAGE: ENGLISH

LOAD-DATE: May 5, 1997

LEVEL 1 - 17 OF 20 STORIES

Copyright 1997 The New York Times Company  
The New York Times

May 5, 1997, Monday, Late Edition - Final

SECTION: Section A; Page 1; Column 2; Business/Financial Desk

LENGTH: 79 words

HEADLINE: Scam Is Up as Study Finds No Gold Mine

BODY:

An independent consultant has found that a location in the Indonesian jungle said to have been the site of the gold strike of the century appeared to contain no gold worth mining.

The audit also concluded that initial drilling results of Bre-X Minerals, the Canadian company that explored the site, had been deliberately doctored in an elaborate scheme to make the finds appear far richer than they actually were at the site, called Busang.

Business Day, page D2.

LANGUAGE: ENGLISH

LOAD-DATE: May 5, 1997



LEVEL 1 - 18 OF 20 STORIES

Copyright 1997 The New York Times Company  
The New York Times

May 5, 1997, Monday, Late Edition - Final

SECTION: Section D; Page 2; Column 4; Business/Financial Desk

LENGTH: 900 words

HEADLINE: Nothing Worth Mining Found on Bre-X Site

BYLINE: By ANTHONY DePALMA

DATELINE: OTTAWA, May 4

BODY:

An independent consulting company has found no sign that there is gold worth mining at the Indonesian site discovered by Bre-X Minerals Ltd. of Canada, which had contended that it had found the gold strike of the century.

Moreover, the independent audit concluded that initial drilling results had been deliberately doctored in an elaborate scheme to make the finds appear far richer than they actually were.

The audit showed "trace amounts of gold," according to the report, released today in Indonesia. But there is "virtually no possibility of an economic gold deposit" at the Busang jungle site, on the island of Borneo, which a bit more than a month ago had been widely thought to contain from 70 million to 200 million ounces of gold, worth billions of dollars.

The consulting company, Strathcona Mineral Services of Toronto, had been hired by Bre-X to clear up confusion about the drilling results, after a prospective American partner for Bre-X, Freeport-McMoran Copper and Gold of New Orleans, said that its preliminary tests indicated the claims of a vast gold deposit at Busang seemed false.

Strathcona concluded that the inaccurate estimates of the gold deposits had been based on "falsified data," and said that there had been "tampering with samples delivered to the labs."

"The magnitude of the tampering with core samples that we believe has occurred and resulting falsification of assay values at Busang is of a scale and over a period of time and with a precision that, to our knowledge, is without precedent in the history of mining anywhere in the world," Strathcona concluded.

The damaging report is likely to doom any chance Bre-X might have had to go forward with the project, which had made company officials millionaires without producing a single commercial ounce of gold.

Instead, the small company, based in Calgary, Alberta, is likely to be hounded by infuriated stockholders, both large and small, who have seen the value of their shares plummet since the first doubts were raised in late March

about the validity of Bre-X's initial findings.

Several shareholder groups have already filed lawsuits in the United States and Canada against Bre-X. The Toronto Stock Exchange said it would halt trading in Bre-X stock when the session opens on Monday.

The chairman of Bre-X, David G. Walsh, said he was devastated by the consultant's report. "We share the shock and dismay of our shareholders and others that the gold we thought we had at Busang now appears not to be there," Mr. Walsh said tonight.

"We are determined to gain a full understanding for the shareholders, for Bre-X's business partners and for others, of how the earlier data came to exist," he said.

Late last week, in apparent anticipation of a negative report by the consultant, Bre-X officials were talking freely about the need for large-scale bulk samples to accurately determine how much gold lies under the jungle floor at a difficult site like Busang. Bre-X had drilled 300 test holes over the course of more than two years in coming up with its initial results. Both Freeport's and Strathcona's testings were limited to a handful of holes. Bre-X is likely to try to defend itself by insisting that more thorough testing needs to be done.

Mr. Walsh had planned to release the results of the Strathcona audit before the opening of trading on Monday morning. The results were first disclosed in Indonesia today.

The scene at the Toronto Stock Exchange when Bre-X trading resumes could not be as frantic as it was a month ago when the doubts first arose about the deposit, if only because the stock has already lost more than 80 percent of its value.

On March 26, Freeport McMoran said that the seven test holes drilled near supposedly rich holes made by Bre-X had found only "insignificant amounts of gold." Within minutes after trading resumed the following day, the stock had dived to \$2.50 (Canadian) a share from \$15.50, with a volume of trading so great that it repeatedly knocked out the main computer at the exchange.

Freeport McMoran has repeatedly said that it would pull out of the project if it was not economically feasible to drill for the gold. Company officials reiterated that threat as recently as last Tuesday, when they held their annual meeting in New Orleans.

There was heavy trading in Bre-X on Friday as investors placed their last bets on whether there really was gold at Busang, believers buying up cheap shares and disbelievers dumping whatever they could while the stock still had some value.

The mystery surrounding Bre-X and its tenuous grip on the Busang site has puzzled even the most experienced investors, including large mutual funds and pension managers who all seemed to have bought into Mr. Walsh's dream about Busang being El Dorado.

In March, one of Bre-X's chief geologists, Michael de Guzman, plunged to his

death from a helicopter en route to a meeting with Freeport-McMoran officials who were reportedly seeking answers about the discrepancies in results between their drillings and those of Bre-X.

In February, Freeport, which has had a 30-year history of mining in Indonesia, beat out competing companies to win a 15 percent share of the Busang mine.

The company agreed to spend as much as \$400 million building the mining site, but conditioned its participation on satisfactory results from its own testing.

LANGUAGE: ENGLISH

LOAD-DATE: May 5, 1997

LEVEL 1 - 19 OF 20 STORIES

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WALL STREET JOURNAL

May 2, 1997, Friday

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HEADLINE: FOR VENERABLE J P MORGAN, BRE-X JOB QUICKLY TURNED FROM BOON TO BANE

BYLINE: BY ROBERT FRANK

ABSTRACT:

Bre-X Minerals Ltd's Busang (Indonesia) gold find seemed like a sure thing when J P Morgan eagerly signed on as Bre-X's financial adviser, but many now question whether bank did enough due diligence before accepting Bre-X's business (M)

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# FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE

Date: 06/19/1997

To: New York

From: New York

Contact: SA [redacted]

Approved By: [redacted]

Drafted By: [redacted] dil

Case ID #: 196C-NY-262125 (Pending)

Title: BRE-X;  
DAVID WALSH;  
SECURITIES FRAUD

Synopsis: Request reassignment of case due to conflict.

Reference: 196C-NY-262125 Serial 3

Details: In response to an EC to the Legal Unit dated June 16, 1997, CDC [redacted] notified SA [redacted] that there is a conflict in her working on this investigation due to a financial interest in a mutual fund which held Bre-X stock. Accordingly, SA [redacted] requests that this case be reassigned to another agent.

For purposes of assisting in reassignment, the following Fidelity mutual funds held Bre-X stock: Contrafund, Magellan, Asset Manager, Strategic Opportunities and Mid-Cap Stock.

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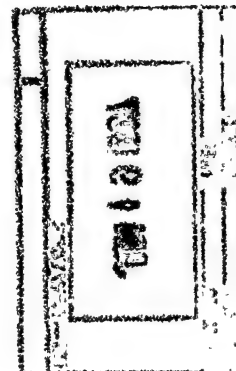
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THE NEW YORK TIMES, WEDNESDAY, MAY 7

# Shares of Bre-X Plummet, Becoming Nearly Worthless

## Heavy Toronto Volume Briefly Halts Trades

By ANTHONY DePALMA

TORONTO, May 6 — Stockholders dumped the shares of Bre-X Minerals Ltd. at a blistering rate today, reducing the value of the widely held company to little more than the cost of the paper on which its certificates are printed.

Last Friday, Bre-X shares dropped to \$3.23 in Toronto and \$2.375 on Nasdaq. This morning, the stock opened at 6 cents (Canadian), or 4.4 cents (United States), on the Toronto Stock Exchange as trading resumed for the first time since the company's purported gold find in Indonesia was labeled a hoax by an independent auditor late Sunday night. The stock closed at 8.5 cents (Canadian) — little more than 6 cents (United States).

At their height about a year ago, Bre-X shares sold for as much as \$200 (United States), before being split 10 for 1.

In the United States, where Bre-X is listed on Nasdaq, trading was suspended and will not resume until the market's listing-qualifications panel gets some answers from company officials about reports that drilling samples from the site had been tampered with to make it appear that Bre-X had found the gold strike of the century.

"We have no obligation to trade companies that have admitted to fraudulent claims," the president of the Nasdaq market, Alfred Berkeley, said in a statement today. Bre-X officials have been asked to appear before the panel next Tuesday.

The Toronto Stock Exchange is also considering whether the plunge in the company's share price means that Bre-X no longer meets the capital requirements for being listed. Once valued at more than \$6 billion, even though it had never commercially produced an ounce of gold,

had sold Bre-X short last week when it was still valued above \$3 a share. Thus, those who had agreed to sell the shares this week at, say, \$2 each stood to make a profit by buying them today for pennies.

And analysts said there were still buyers looking for bargains now — betting that the volatile mining stock might yet rise, based on rumors circulating over the Internet that the Bre-X site might actually hold some of the 70 million to 200 million ounces of gold that company officials had first contended.

Today's frenzied trading "has got nothing to do with value," said John J. Woods, editor of Stock Watch, a newsletter. "It has to do with potential rumors."

Bre-X became virtually worthless when an independent mining consultant, hired by the company to clear up doubts about the Indonesian site, concluded that the only gold found in Bre-X's thousands of samples had

*Some short-sellers  
profit, and Internet  
rumors offer hope to  
the truly fanciful.*

been falsely planted there.

Indonesian authorities and the Royal Canadian Mounted Police are looking at the details of the Bre-X case as they determine whether to bring criminal charges against the company and its officials, several of whom became millionaires by selling Bre-X shares months ago.

The Indonesian Government has also suspended work on two other mining sites controlled by companies owned by the Bre-X officials.

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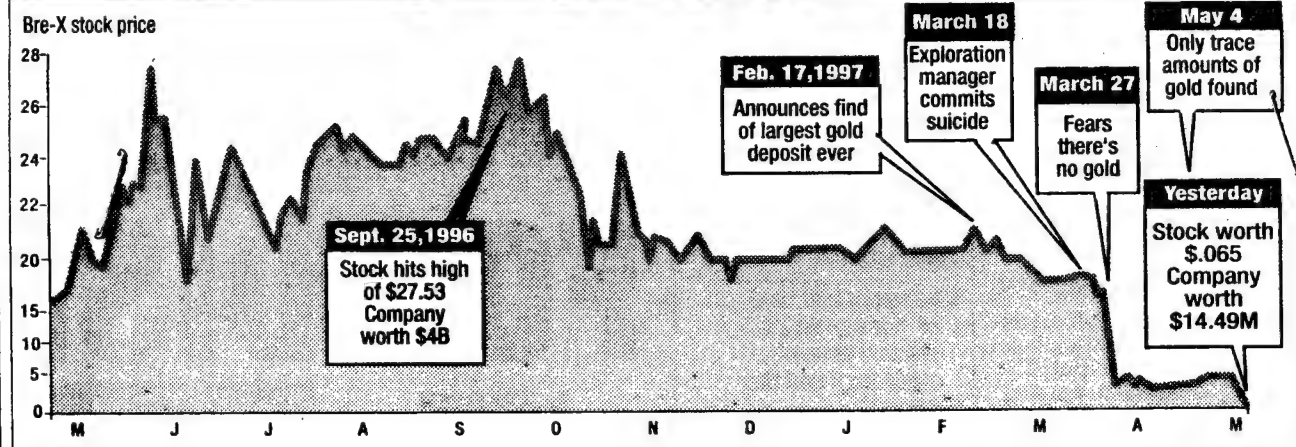
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## From hero to zero



# Angry shareholders sue Bre-X for fraud

By BETH PISKORA

Bre-X shareholders say it's payback time.

These investors, facing big losses since the gold mining company admitted there's no gold in its biggest field, have decided to go after the people who did make money: Bre-X insiders.

In fact, Canadian and U.S. court clerks got a workout yesterday as Bre-X shareholders filed numerous lawsuits accusing the company of fraud and seeking to recover damages.

Bre-X had become one of the hottest stocks of 1996, growing 316 percent, when it announced that its site in Busang, Indonesia contained the biggest gold field ever discovered.

Earlier this week, Bre-X officials admitted that Busang contains only trace elements of gold, after months of rumors that the site contained more gold than they had

## All that glitters



**John Felderhof**  
Vice President



**Name**  
**Title**  
**1996**  
**Shares sold**  
**\$20M**  
**Profit**



**David Walsh**  
President

**1996**  
**\$22M**

shares when the stock was at its highs last year.

David Walsh, chairman of Bre-X, and his wife, who acts as company secretary, consistently sold shares from April through November of 1996, netting more than \$20 million.

John Felderhof, chief of ex-

with Wechsler Harwood Halebian & Feffer, a New York-based law firm that has filed one of the class-action shareholder lawsuits against Bre-X.

"An insider dumps when he's convinced the is going down," adds Halebian, who says the

added, "It is not unusual for us to bring a case against a foreign-based entity when trading in that entity's security impacts on the U.S. market."

If the SEC found Bre-X officials guilty of insider trading, lawyers like Halebian would have an easier time pressing their cases.

"In a case like that, you can ask the manager to give back their profit, especially if we can show a shareholder who is selling at the peak of the stock price, one of the best selling."

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## INSIDE BUSINESS

# Former Bre-X official stays in C

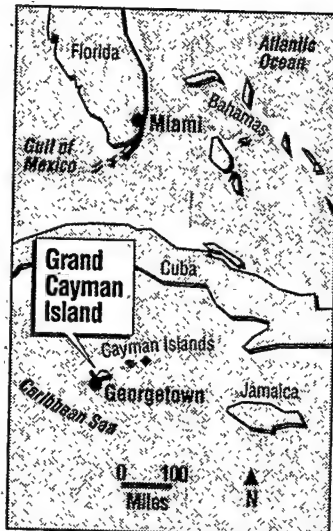
By Tom Lowry  
USA TODAY

GRAND CAYMAN, The Cayman Islands — John Felderhof, Bre-X Minerals' exploration chief who quit last week as the fallout from the company's gold mining scandal grew more complex and even tragic, has a new occupation: exile in paradise.

Since last Sunday's revelations that Bre-X's claim of hitting the gold strike of the century was a fraud, Felderhof, 56, has been in seclusion on this tiny British colony, once a pirate hideout and now a tourist and offshore tax haven.

The past two years, as Felderhof amassed a fortune selling Bre-X's highflying stock, the Dutch-born geologist spent more than \$4 million on luxury properties on Grand Cayman.

Secluded or not, Felderhof's role at Bre-X is of interest to the Royal Canadian Mounted Police and stock regulators inves-



tigating Bre-X's gold testing at Busang in Indonesian Borneo. Bre-X boasted reserves of up to 71 million ounces of gold worth \$21 billion. Felderhof was directly involved in the testing.

But Felderhof is not talking, other than releasing two brief statements that he was not aware of any fraud at Busang or Bre-X. "What is required are additional facts to answer the many new questions now being asked. I have also continued to cooperate with authorities," Felderhof said in his latest statement Friday.

In an attempt to speak with Felderhof over the weekend, a USA TODAY reporter was turned away by two security guards at Vista del Mar, a gated community where Felderhof owns a five-bedroom waterfront property.

One of two lawyers he's hired, Joseph Groia, says Felderhof won't make any more statements until he studies the report released May 4 by an independent mining consultant.

Meanwhile, Felderhof and his wife, Ingrid — who only have a six-month tourist visa — are seeking permanent residen-

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Lund, owner of Re/Max First Realty. "From what I've read, you'd think he'd want to be discreet. But who knows? Maybe he has nothing to hide."

Stanley Wright, managing director of the Bank of Bermuda's Cayman operations, says Felderhof's presence on the island is a black eye. "By virtue of him being here, people say 'Oh, it's those Cayman Islands again.' It just makes our jobs harder in convincing people the island has cleaned up its act."

Unlike many islands in the Caribbean whose economies rely solely on tourism, the Cayman Islands also reaps benefits of being a major banking center. It has often attracted the ire of law enforcement agencies investigating money laundering. There are as many companies incorporated in the Caymans as there are residents — about 33,000. More than 563 registered banks hold an estimated \$464 billion in deposits.

► Roland Francisco, Bre-X's chief financial officer, quit.

► Bre-X shareholders filed a class-action lawsuit against brokerage house Nesbitt Burns. Owned by Bank of Montreal, Nesbitt was a strong supporter of Bre-X stock, which now is almost worthless. Bre-X itself faces eight class-action lawsuits.

Back on Grand Cayman, the locals say they know of Felderhof and Bre-X only through what they read in the press or hear through the grapevine.

"I know when he bought properties here, he wasn't very discreet about it," says Kim

USA TODAY

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International

# Bre-X Mystery Still Eludes Solution, but the Leads Grow

By Peter Waldman and Jay Solomon

Staff Reporters of The Wall Street Journal

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The Wall Street Journal

Page A6

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The day before Michael de Guzman's apparent suicide in March, the Bre-X Minerals Ltd. chief geologist, whose purported gold strike at Busang, Indonesia, would become history's biggest mining fraud, got a phone call from the field.

It was mining engineer Manny Puspos, calling his boss in Jakarta to

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**DOW JONES**

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ask if geologists from Freeport-McMoRan Copper & Gold Inc., the big New Orleans-based mining firm, could take a particular rock sample to test for gold. Freeport was examining the Busang claim, on the island of Borneo, for a planned joint venture with Bre-X of Calgary, Alberta. Mr. de Guzman, before leaving for a mining conference in Toronto earlier in the month, had left strict orders which samples Freeport could test.

But now the Freeport team wanted more. Freeport's own drill-test samples at Busang had shown little worth mining. Suspicious, the geologists insisted on testing core samples from supposedly goldbearing holes provided by Bre-X. Speaking in their native Tagalog, the Philippine language, Mr. Puspos conferred with Mr. de Guzman as the Freeport geologists stood by the phone for an answer.

"Mike says you can take the core," Mr. Puspos finally said, according to people who were there. "He said it doesn't matter anymore."

Hours later, Mr. de Guzman disappeared from a helicopter over Borneo; chaos reigned. Freeport executives, worried about their own geologists' safety, ordered them to evacuate the remote jungle site immediately. Scurrying to load their choppers to beat a gathering thunderstorm, Freeport's David Potter locked eyes one last time with Mr. Puspos.

"Is there something you want to tell me?" he asked the young Filipino, witnesses say. "No," Mr. Puspos said after a long pause. "No, no, no."

That parting exchange may have been the last, best hope for a full accounting of the Bre-X case, the \$4 billion swindle of thousands of investors in Bre-X's oncesoaring stock. In the days following the scam's exposure, Indonesian authorities, seemingly embarrassed by the whole affair, let key Bre-X witnesses disappear. Since then, despite multiple inquiries by private investigators, plaintiffs' lawyers, book authors and Canadian police, none of the Bre-X insiders have apparently provided any eyewitness accounts of how 40,000 bags of worthless Busang rocks were salted to yield a staggering estimate for the entire field of 71 million ounces of gold.

Still, pieces of the global Bre-X jigsaw puzzle are falling into place. Two Filipino Brothers All roads from Busang lead back to the leafy Philippine town of Desmarinas, which Manny Puspos and his older brother, Cesar, call home. Cesar Puspos, 36 years old, was Mr. de Guzman's righthand man. A quiet geologist with an excellent work record prior to joining Bre-X, Cesar was credited by the brash Mr. de Guzman with "discovering" the so-called mother lode in Busang's southeastern zone.



While Mr. de Guzman spent much of his time island-hopping among Bre-X's several Indonesian exploration sites, the trusted Cesar Puspos looked after Busang. Cesar and brother Manny, a computer specialist, resided at Bre-X's nerve center in Samarinda, the eastern Borneo city eight hours by boat down river from the Busang site. The Samarinda compound appears to be where the heaviest spiking of Busang rock samples with gold occurred, according to a report commissioned by Bre-X and to The Wall Street Journal's own investigation.

On March 19, the day Mr. de Guzman jumped or fell from a helicopter transporting him to Busang for a showdown with the Freeport geologists, Cesar Puspos was away from Indonesia, apparently en route back from the Toronto conference.

He surfaced nine days later at Mr. de Guzman's Jakarta wake, and then spent a few weeks watching Freeport and others drill more test holes at Busang. In mid-April, Cesar flew to the Philippines for a scheduled vacation. He was due back on the job on May 1-the same week that Strathcona Mineral Services Ltd. was scheduled to release its independent geological audit of the Busang claim.

Instead, while Strathcona was exploding the Busang fraud, Cesar Puspos ducked out of sight -- along with \$2.2 million of proceeds from his Bre-X stock options. Jerome Alo, a Filipino metallurgist who was the site manager at Busang, pocketed \$1.2 million from Bre-X stock options. Manny Puspos, who joined Bre-X late in the game and never received stock options, now works for Benguet Corp., the Philippine mining company that gave Mr. de Guzman and his confidants their start.

Records show Bre-X's top executives in Canada earned much more money from Bre-X stock options than did the Filipino employees in the field. No evidence has emerged linking any Bre-X executives to the salting.

All the Bre-X Filipinos, while energetically evading the media, have refused until now -- to make any public statements, despite pleas to do so from fellow Philippine geologists who fear Busang has ruined their reputation as a group.

Which brings us back to Desmarinas, an hour's drive south of Manila, and to a small brown house in a subdivision called Villa Catalina. A woman emerges from the screen door and walks toward a visitor at the front gate.

"Cesar is working," she says, identifying herself as the maid. She is pregnant and holds a little girl in her arms who calls her "mama."

The visiting reporter introduces himself. "Is this a BMW?" he asks, reaching for the vinyl covering on a sedan parked in the driveway.

Suddenly, a man thunders out of the house. "What do you want with me?" he yells. "You are the one who is ruining my life: calling my uncle, calling my mother!" His lips and jaw tremble, his head shakes. His voice is choked. He looks like he's about to cry.

Cesar Puspos, though hardly broke, is a broken man. In his first contact with a reporter since Mr. de Guzman's death, he is confused-one moment insisting he must call his lawyer, the next moment settling into banter, albeit reticent, on the shady sidewalk. He talks for two hours. He is frightened, emotional, prone to personal remorse and self-pity. Alone With the Mounties This summer, the Puspos brothers, Mr. Alo and two other Filipinos who worked for Bre-X were summoned by subpoena to the Manila headquarters of the Philippine National Bureau of Investigation. Cesar arrived with his lawyer, expecting to be interviewed by Filipino detectives. Instead, he found four Royal Canadian Mounted Police, a tape recorder and no Filipinos in sight. The Canadians grilled him for four hours.

Cesar says he doesn't remember what they asked, or what he told them. He does remember getting upset, and his lawyer intervening, when, he says, they tried to badger him into a confession. The Mounties hinted they would go easy on him if he cooperated, Cesar says. In particular, they wanted information about John B. Felderhof, former chief geologist and vice chairman of Bre-X, which is under bankruptcy court protection in Canada.

The Dutch-Canadian Mr. Felderhof, along with Mr. de Guzman, brought the Busang claim to Bre-X Chairman David Walsh and helped drive up Bre-X's share price with wild hyperbole. Since the fraud was uncovered, Mr. Felderhof, who earned at least \$35 million from his Bre-X share options, has been holed up in the Cayman Islands, issuing statements protesting his innocence but avoiding journalists.

Cesar doesn't think he gave the Mounties much to go on.

"We were just geologists doing our jobs," he says. "How could I tell them about things I didn't know or didn't see?"

The Canadian police haven't given up. They recently asked Cesar and Mr. Alo to take lie-detector tests, Cesar says. This month, some Mounties gave separate polygraph exams in the Philippines to former Bre-X employees Bobby Ramirez and Rudy Vega, according to Mr. Vega. But Cesar says he won't take a polygraph test, worried that he might fail it



because of his jangled nerves. Mr. Alo, through his lawyers, is also refusing, Cesar says.

"We don't have to take them if we're not charged with anything," he says.

Since April, Mr. Alo, who used to be one of the more accessible Bre-X employees, has stopped returning phone messages left at his Quezon City, Philippines, home. Not Even a Guess Cesar professes to have no idea of how Busang's samples got spiked; he won't even hazard a guess. He does confirm that Bre-X took the unusual step of opening sample bags in Samarinda before sending them for assaying to the nearby city of Balikpapan, as this newspaper disclosed in May. That news caused consternation among mining professionals, who said exploration samples should never be waylaid or opened between mining site and assay lab. The only reason Bre-X opened the bags, Cesar says, was to check that none had broken in transit. He wasn't the only person who inspected them, he says; several Indonesian staff members handled the job as well. The only reason Busang sample bags accumulated in Samarinda, he says, was because the high volume of samples delayed the assaying.

But in Samarinda, Bre-X's Indonesian workers recall a different drill.

Bre-X rule No. 1: No Busang samples could be shipped from Samarinda unless personally approved by Cesar Puspos, says Muzayanah, who worked as a Bre-X logistics officer for 18 months, and, like many Indonesians, uses a single name. "When Cesar wasn't in Samarinda," she says, "all the bags would stack up until he returned."

This bottleneck prompted angry phone calls from PT Indo Assay Laboratories, Bre-X's assay lab in Balikpapan. When Cesar wasn't around, the sample flow stopped, says John Irvin, Indo Assay's general-manager. It caused unheard-of delays for such a hot exploration project. In its Busang geological audit, Strathcona found one Busang sample, drilled on Nov. 16, that didn't reach Indo Assay until March 13.

What happened in between?

Pantiyani, who worked as a Bre-X accountant in the Samarinda compound from March 1996 until last May, shared an office wall with the staff recreation room where sample bags were stored.

She and other former Bre-X workers say the sample bags would arrive by truck from the Samarinda wharf during normal business hours, and were unloaded on the driveway outside the staff quarters in the rear of the

compound. Then, usually around dusk, Cesar and local workers would move certain bags inside the staff house, placing them on the recreation room floor. When the shipments backed up, say former Bre-X staffers, the room became so jammed with bags of rocks that it became difficult to thread one's way to the adjoining kitchen. Alone With the Bags at Night Pantiyani saw Cesar opening the bags in the evenings, alone, she says. Sometimes, she says, she would be in the room when Cesar, working from documents in his hand, would line up the sample bags in sequence, open them and sometimes dip a pen or pencil inside as if mixing the rocks. She says she never saw him add any foreign material. But she and other Bre-X workers say Cesar would often remain in the recreation room long after midnight, by himself.

In the morning when Pantiyani arrived at work, most of the bags would already be resealed and ready for shipment to Indo Assay. It seemed so routine, "I never paid much attention to it," she says.

Cesar Puspos, invited to lay blame elsewhere for Busang or to come up with any theory at all for how it happened, the man who knows more about Bre-X's sampling procedures than anyone else alive, says simply, "I can't." He declines to speculate on what understandings may have existed between his superiors Messrs. de Guzman and Felderhof. "Whatever they discussed," he says, "they didn't tell me."

The evidence of broader involvement in the fraud, beyond the Filipinos on the ground, is scant. Mr. Walsh, Bre-X's chairman in Calgary, was the money-raiser and **stock-promoter** and made many millions on Bre-X. But he was completely detached from the geological side. Mr. Felderhof, Bre-X's top geologist, might have recognized warning signs emanating from Borneo and the Busang data, say geologists who helped uncover the scam. But Mr. Felderhof appears to have been too enamored of Mr. de Guzman's abilities and of their prospective riches to pay any heed, they say.

Mr. Felderhof spent little time in Indonesia, and deferred most questions about the site's geology to Mr. de Guzman, according to former Bre-X employees and executives of other mining companies. At a geological presentation in Jakarta last year, Mr. Felderhof couldn't even name the main river traversing the site, one geologist recalls.

But in the only scientific paper written about Busang, which was authored, in order, by Messrs. Felderhof, de Guzman, Cesar Puspos and Indonesian geologist Jonothan Nassey, the writers made "special mention" of primary author Felderhof in the acknowledgments, citing "his vast geological expertise and inspiration." 'In the Dark' "Mike kept Felderhof in the dark on most things," says Glen Greisbach, a Canadian

geologist who worked for Bre-X. "Felderhof was totally naive, a dupe."

The Filipinos, on the other hand, could be ruthless. Messrs. de Guzman, Alo and Cesar Puspos ran Busang with an iron fist, controlling all project information among themselves, say former Bre-X employees. When Bre-X geologist Dimas Sudibyo, an Indonesian, asked Cesar Puspos why BreX had made the unorthodox decision to process so-called in-fill, or less-promising rock samples, at Busang, while sending the more-promising rocks directly to Samarinda, Cesar shot back, "Because I'm the boss," Mr. Dimas recalls.

One of the more mysterious episodes occurred in January, when a fire gutted several buildings at Busang. The blaze broke out before dawn in a second-story suite housing Mr. Alo's office, former workers say. Among the property destroyed were thousands of pages of Busang logs, the detailed impressions of freshly drilled core by Bre-X geologists.

Later, loss of those records would thwart anyone wanting to compare Busang's extraordinary, yet erratic, assay results with the scientific descriptions of the same rocks as they came out of the ground.

As panic swept through the Busang camp, Mr. Alo directed the futile efforts to extinguish the blaze, former workers say. When the fire burned itself out at about seven in the morning, he ordered a bulldozer to plow the site under, despite complaints from some Bre-X employees who wanted to look for remains of their things, according to former workers.

Article 117 of 251

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1, News

**Judge hands big victory to Bre-X investors**

Sandra Rubin

566 Words

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The Financial Post

Daily: Toronto; Vancouver

Page 1

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An Ontario Court handed investors in Bre-X Minerals Ltd. an early victory yesterday, refusing to throw out huge parts of a class action lawsuit against insiders, brokerages and analysts for their role in the multibillion-dollar **stock fraud**.

Defendants including Nesbitt Burns Inc., Bre-X exploration chief John Felderhof and chief executive David Walsh had been trying to have the suit whittled down in advance of any trial.

Their lawyers argued in pre-trial hearings late in March the case against them was not properly pleaded.

But in a decision last night, Judge Warren Winkler refused to grant their motions to dismiss key chunks of the suit, saying allegations of misrepresentation and conspiracy will stand. But he added some portions passed the test by a "mere whisper."

"This is a superb result for us," lawyer Harvey Strosberg, who is leading the suit on behalf of investors, said from Scottsdale, Ariz. "All the defendants attacked everything and tried to get rid of everything. What the judge did is say, generally, the actions stand. The only element he struck out is breach of fiduciary duty."

In his 39-page ruling, Winkler said Bay Street brokerages will have to answer to claims of negligent misrepresentation made by investors who say they relied on the brokerages' advice in buying Bre-X shares.

TD Securities Inc., ScotiaMcLeod Inc., Levesque Beaubien Geoffrion

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Inc., Midland Walwyn Capital Inc., CIBC Wood Gundy Securities Inc., First Marathon Securities Ltd. and Nesbitt - and their gold mining analysts - have all been named in the suit.

But Winkler made it clear the case against all of them is not equal.

"The main action does contain a sufficient pleading to sustain the allegation of fraudulent misrepresentation as against Nesbitt Burns and [analyst Egizio] Bianchini, and against First Marathon and [analyst Kerry] Smith," he wrote.

"In respect to the claim against ScotiaMcLeod, I have serious reservations. Taking into account the minimal threshold ... this claim is so scant as to only pass that test by a mere whisper."

In a move sure to be welcomed by the brokerage community, Winkler threw out allegations investment advisers were in breach of fiduciary duty in recommending the **stock**.

"None of the plaintiffs has pleaded any specific facts ... which could serve to elevate the brokers relationships above the status of information provider or order taker.

"Nor are there any material facts which, if true, could support a finding of vulnerability on the part of the plaintiffs, or discretion in decision making on the part of the brokers."

He also refused to uphold arguments by Walsh, Felderhof and Bre-X vice-president Stephen McAnulty that they cannot be sued in their personal capacity because they were acting as officers and directors of the corporation in issuing press releases suggesting the Indonesian strike was among the biggest finds ever.

Winkler said the allegations, if proved, "are sufficient to attach personal liability to these defendants."

But he did stay portions of the suit against Ingrid Felderhof and Nancy McAnulty, until the case against their husbands is resolved.

Montreal-based SNC-Lavalin Group Inc. had part of the case against it dismissed last month, but will stand trial for breach of the federal Competition Act.

SNC's Kilborn engineering subsidiary provided an independent resource

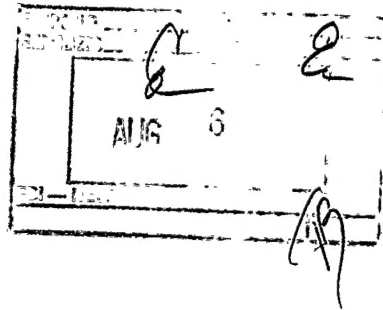
# **Dow Jones Interactive<sup>SM</sup>**

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estimate that supported claims of a massive find.

Such calculations, which were widely disseminated by Bre-X, were materially false and misleading and therefore in breach of the act, the plaintiffs say.

196C-NY-262125-12  
bxclose.ec



(12/31/1995)

# FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE

Date: 08/05/1998

To: New York

From: New York

Contact: SA [redacted] x3471

Approved By: [redacted]

Drafted By: [redacted] jjb

Case ID #: 196C-NY-262125

Title: BRE X;  
WALSH, DAVID;  
FBW: Securities Fraud

Synopsis: Closing EC.

Details: Captioned investigation was opened at the request of the Southern District of New York U.S. Attorney's office. Case involves a publicly traded company on the Canadian Stock Exchange and is currently being investigated by the Canadian authorities. In addition subjects are all located outside of the United States. As a result case should be closed.

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